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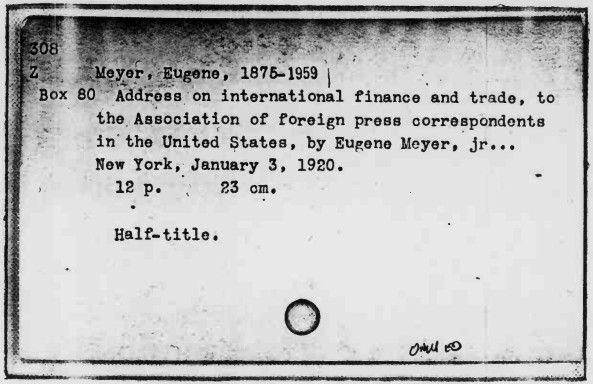
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ADDRESS

ON

INTERNATIONAL FINANCE AND TRADE

TO THE

Association of Foreign Press Correspondents in the United States

BY

Eugene Meyer, Jr.
Managing Director of the War Finance Corporation

NEW YORK
JANUARY 3, 1920

22 Ap 1920 3rd

INTERNATIONAL FINANCE AND TRADE

By EUGENE MEYER, JR.,
Managing Director of the War Finance Corporation.

When your President did me the honor to invite me to address you on international finance I was glad to accept his invitation, for I earnestly believe that the subject is assuming a position second in importance to none of all the world's great and pressing questions. Frankly, I seek to interest you in these matters because I know that if you are interested you will be helpful.

Conditions of trade and of the finances that facilitate it, never were of such vital importance as at this moment, for upon the intelligent understanding of the facts that underlie the present economic conditions of the world, upon the prompt adoption of the policies that are necessary to meet these conditions, and upon decisive action in carrying out those policies, depends, I believe, the result for which your countries and ours have struggled during the war. How may the world reconstruct the devastated areas and the destroyed industries, renew transportation systems, restore full production and secure an adequate food supply, with sufficient heat and light and power, and the ordinary comforts of life? These questions must have their urgent appeal to you gentlemen of the press. It is for you to make clear to all the peoples the nature of the problem, and to follow the steps that may be taken and those that may be neglected.

In addressing you, I speak to you as one who has a small part to play in this great and dramatic moment

in international affairs, but I desire to make it clear that I speak only for myself, and I shall discuss international finance especially with reference to the relations of the United States with France, England, Italy, and Belgium. I do not mean that our relations with the other countries are not of great importance, or that their desperate needs should be delayed in calling forth our sympathetic and prompt consideration, but it seems to me, so far as strictly commercial matters are concerned, more practicable first to meet the needs of the countries named, and then at the right time—and I hope it may be soon—to take up the needs of the others.

A bill shortly to be sent to the Congress is intended to cover the urgent relief requirements in parts of Europe where the suffering is greatest, and we hope that the prompt passing of this bill may do what can be done only as relief. But my discussion with you concerns only questions of finance and of the commerce that depends upon it.

Demoralized exchange markets forced the attention of the thinking world to the difficulties inherent in this situation, which had been lurking in the background ever since the day of the armistice. Various circumstances prevented for a long time the urgency of the problem from making itself manifest. In Europe the hardships of demobilization during the winter season, the dislocation of industry, and widespread unemployment due to cancellation of war contracts, and the political and territorial debates of the Peace Conference occupied people's attention exclusively. In America we also had our

period of industrial confusion, and in addition to the problems of demobilization, we had the great task of bringing home two million soldiers from overseas.

Then, too, subsequent to the armistice, loans from the United States Treasury to the extent of $2,365,000,000 that were made to the governments of the countries associated with us in the war, facilitated a continuation of our exports of supplies, which although purchased for war were useful for peace industries. The large sums spent in Europe to maintain our armies and the sales on credit of our stocks of army supplies also helped to tide over a situation that has now become acute. The value of our exports to England, France, Belgium, and Italy for the first ten months of 1919 reached a grand total of $3,305,000,000—against a figure of $3,043,000,000 for the same period in 1918, an increase of $262,000,000, although military operations were over.

May I say here that almost upon the very signing of the armistice the directors of the War Finance Corporation began the consideration of the question which I am discussing—that is, how to help to finance foreign trade during the reconstruction period? It was early in January that the amendment giving the War Finance Corporation power to extend aid to our export trade for a period of five years was presented to the Secretary of the Treasury, and realizing that assistance to foreign trade was essential to the situation, he promptly approved our recommendation. By this amendment, which the Congress passed on March 3, 1919, the War Finance Corporation was authorized to lend to American exporters and to American banks that

finance American exporters, an aggregate of one billion dollars.

Our anticipations soon began to be realized. Beginning in April, 1919, the excess of Europe's imports over exports was reflected in a sharply declining exchange market. The pound sterling, which on March 1, 1919, was quoted at $4.76, is today $3.80. The quotation for French exchange which on March 1, 1919, was 5.48 francs to the dollar, is today 10.80 francs to the dollar. Belgian and Italian exchanges have likewise declined greatly.

There is nothing mysterious about international exchange, if it is approached from a common sense point of view. Goods bought in a foreign country can be settled for only by the sale of other goods or of services, by the shipment of gold, the international medium of exchange, or through the use of some form of credit. At present, as you well know, the buying countries have not sufficient goods to sell in exchange for those they wish to buy. They have not enough gold to settle their balances, and adequate credit machinery is not yet in operation.

It would be superfluous to discuss the reasons why the productive powers of European countries on a scale, which would make possible larger exports of goods, are so slow to recuperate, and the gold situation is clear—all the available gold in Europe would not pay for the goods that are needed. Therefore, credit alone remains as a means to finance the flow of supplies necessary to feed the people and to restore their industries.

Let us now look at the credit situation from the two points of view—that of America, the seller and lender, and that of Europe, the buyer and borrower.

Assuming, as seems to be clear from the annual report of the Secretary of the Treasury, that credit from the United States Government is no longer desirable or obtainable, except in cases of relief, there are still available three forms of credit from America: (1) credits from bankers; (2) credits from commercial and industrial sources; (3) credits obtainable from the investment market in this country.

Taking the first form, it is obvious that the usual banking credit is necessarily a short term credit, exceedingly useful in financing ordinary transactions of export and import, but totally inadequate to meet the existing difficulties. The Edge Law, recently passed by the Congress and signed by the President, is designed to facilitate the creation of banking institutions to extend long term credits for foreign trade, of a kind appropriate under present circumstances.

As yet it is uncertain how promptly and how extensively these institutions may become effective. At the time that the bill was presented the investment markets, from which it was expected funds would be obtained, were in better condition than at the present time, and the sale of securities to large investors by these proposed Edge Law banking corporations is materially hampered by the present high surtaxes on income.

The President and the Secretary of the Treasury, however, have called the attention of the Congress to the question of taxation, and it is to be hoped that such action may follow their recommendation as will open the investment markets more widely to the financing of foreign credits.

In the second class are the long credits which strong commercial and industrial companies may be in a position to grant to their foreign customers in order to help tide over the present emergency. Among such are some of the more important producers of raw and semi-finished materials, as well as a large number of manufacturing corporations supplying goods fundamental to reconstruction.

There have been some credits already granted in this form, and I am glad to be able to tell you that more are being arranged for now and in considerable amounts; some of the industrial companies are applying and getting their funds from the War Finance Corporation. Among these are such loans for fundamental needs of reconstruction as five million dollars for agricultural machinery, five million for locomotives, and five million for electrical machinery. I hope that at no distant date additional amounts may be arranged and for similarly useful purposes.

In the third class are credits, obtainable in the investment market, which should be by far the most important source of assistance, if it can be enlisted on a large scale. A number of loans in dollars have been issued in this country, and this is one good method by which the American investor is helping. But one method is not sufficient, and for some time I have been advocating the opening of our public markets, under proper safeguards, to the internal loans of foreign countries, in addition.

In years past, when the United States needed foreign capital, Europe bought our American dollar securities,

and it was only as an exception that the American borrower was called upon to issue obligations in foreign currencies. The public markets of England, France, Belgium, Holland, Germany, and Switzerland took our American investments practically in the form in which we issued them. In Holland it was customary in certain cases to issue a Dutch certificate for the Dutch investor, but these were merely local certificates in the Dutch language issued to represent the deposited American certificate.

American investors are accustomed to certificates that are engraved and that are certified by responsible transfer agents and registrars for purposes of protection, and there is no reason why they should not get this protection by having American bankers and trust companies issue local certificates which represent the deposited foreign certificates.

Any dealer in international securities should be able to buy these foreign securities in the open markets of Europe and at a moderate charge to have his European certificate exchanged for an American certificate, which would be good for delivery in our markets. The results would be (1) furnishing, through the investment market, large aggregate amounts of funds for financing our trade with European countries; (2) material broadening and consequent stabilization of the exchange market, which would enable business men to make calculations, based on very much less erratic fluctuations in exchange quotations; (3) helping the European markets for their internal loans, because the European investors would have the advantage of an international market, rather than

merely a national market for their own issues; (4) making the internal loans of foreign countries available as collateral for securing short or long accommodation from various sources in America, including the War Finance Corporation.

There is nothing original in this idea. However, it will be new for this country to have public markets for foreign securities in foreign currency terms. Our position has changed from that of a debtor nation to that of a creditor nation, and our banking machinery and our security markets must reverse the processes and the machinery designed to facilitate business when we were borrowers of capital. We must build up a new financial structure for our altered commercial relations, and the establishment of an international public market for international securities is, in my opinion, the most logical, the quickest, and the most important single step that can be taken now.

I have emphasized the advantage of opening our markets to the internal obligations of foreign governments, but with proper exemption from foreign taxation (such as exists already in the case of some of the internal loans), and other safeguards to American holders, the prime municipal and industrial securities of the borrowing countries would quickly and logically follow.

Coming now to the European countries, the buyers and borrowers, let us consider for a moment what they can do to cooperate with us, and what obligations they can give. The foreign governments or municipalities may be the borrowers, the bankers of Europe may be the borrowers for the shorter periods, and commercial

and industrial organizations may borrow for short or long periods. Or combinations of any of these may act together. By this I mean, for example, that industries may create combined obligations so strong as to be satisfactory to the American sellers and lenders, or these obligations may, to some extent, be guaranteed by their bankers or their governments.

In addition to the above, there is the opportunity to sell in our markets investments, held in outside countries by the country that desires to increase its fund of dollar exchange. And as some of the countries we are discussing hold large amounts of such investments in other lands than their own, this form of financing may help materially.

Stated in general terms, gentlemen, these are the possible solutions. I do not think that there are any others. We and the European borrowers will have to study the facts of the situation and determine which of these various methods seem expedient in each of the countries and to what extent.

May I now say a word with regard to the attitude on both sides of the water? In June, moved by a vision of impending economic impasse, I visited France and England, and conferred with some of the leading bankers and Government officials, and with some of the representatives of Belgium and Italy assembled in Paris. No definite plans appeared to have been formulated by the borrowing countries to meet the difficulties in international trade which all agreed were bound to arise with the cessation of loans from the United States Government. Europe's easy method of covering purchases made in

America by loans from the United States Government seemed to have brought about a state of mind which made it difficult to conceive of other methods, yet obviously at some time other ways would have to be found.

Today in Europe the problem is fully recognized. The recent visits of the economic missions of England, France, Belgium, and Italy indicate great interest in considering what may be done. But, to speak frankly, I feel that too much time is being lost. The situation needs the clear grasp of facts, the concise definition of purpose and the courage and decision to take the necessary steps to bring about satisfactory conclusions. Yet I have faith and believe that the great problems of peace and reconstruction must command in every country such leadership as Clemenceau, brought to the war problems of France.

I do not believe it possible that the leaders of government and finance in these same countries, who stood the terrific strains for so long a period, who had the dogged determination to carry on over every obstacle, the unflinching will to surmount every reverse, will now yield to the difficulties of peace, which are great, it is true, but which are inconceivably small compared with the tremendous efforts of war.

In this country, apart from a few extremists, I believe that our people approach the subject realizing that we are, as never before, a nation among nations, with our part to play in world affairs. They realize that every force of nature is driving us outward to take our place in international relations—commercial, financial, and political—that we cannot reverse the process if we would, and that we should not if we could.

I believe that the great body of American citizens approach the problem of international trade and finance with a strong sense of responsibility to the rest of the world. They desire to do their part at this time of reconstruction, as they desired to do their part in war. They are not motivated by greed or by dreams of economic domination, nor do I believe that they regard the situation as of a purely sentimental character. They approach it in all seriousness as a problem in which a heavy obligation rests on the American business man and the American banker, and they are ready and willing, nay even anxious, to live up to the rightful expectations of a watchful world.

When I addressed the Finance Committee of the Senate in February of last year on the subject of an amendment to the War Finance Corporation Act, I stated that "a prompt restoration of international trade will enable Europe to restore its industry and employment of labor, and thus to hasten its political and social peace. Unemployment and hunger are the surest sources of social disorder. In extending credits at this time to foreign countries to enable our industries and theirs to resume normal activity promptly, I believe we would be making a most important contribution toward international peace and prosperity, and that the results arising would benefit alike the country extending the credits and the countries which received them", and, gentlemen, I cherish the idea that this is the attitude of the country.

In considering Europe's needs, do not forget that there is work to be done in America: goods are in demand; materials, labor and capital are needed in

amounts so great as to make it appear almost impossible to meet the foreign as well as the domestic requirements. A report of the Department of Agriculture states that road work amounting to $633,000,000 is required. An investigation by the Department of Labor shows that building construction work to a total of $1,750,000,000 was deferred during the war and that only a small part of this has been started. Steam railroad systems of the country, at a conservative estimate, could use $2,000,000,000 as soon as the funds are obtainable. Electric railway construction has been at a standstill, and power plants and other fundamental needs of our industrial life are waiting everywhere for a supply of capital, labor, and material to allow essential development. The construction needs of our rapidly growing population compete in urgency with the reconstruction requirements of Europe.

Now, gentlemen, if the people, the industries, and the bankers of Europe, on the one hand, and the people, the industries, and the bankers of America, on the other hand, know the problem, and if, as I believe, the possible solutions are clearly defined—and they comprise only a small range of possibilities—then there is needed only a decision with regard to the policies that are necessary and the energy to put them into effect.

In great crises the weakness of human institutions is in the delay in making the adjustments necessary to meet new conditions. The question today is whether we shall do the necessary things with sufficient promptness or whether it will be once more "too late".

January 3, 1920.

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